Consolidated Financial Statements and Single Audit Reports

As of December 31, 2008 and 2007 and for the Years then Ended

(Together with Independent Auditors' Reports)

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES
Index

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THE CRITICAL KNOWLEDGE SOURCE
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Valley Mental Health, Incorporated
Salt Lake City, Utah

We have audited the accompanying consolidated statements of financial position of **Valley Mental Health, Incorporated and Affiliates** (the Organization), as of December 31, 2008 and 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Valley Mental Health, Incorporated and Affiliates** as of December 31, 2008 and 2007, and the changes in their net assets, and their cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the consolidated financial statements, in 2008, the Organization adopted Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. No adjustments were required to be made to the consolidated financial statements as a result of adopting this new standard.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 21, 2009, on our consideration of Valley Mental Health, Incorporated's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Valley Mental Health, Incorporated and Affiliates taken as a whole. The accompanying schedule of expenditures of federal awards of Valley Mental Health, Incorporated (excluding affiliates) for the year ended December 31, 2008, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

April 21, 2009

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES
Consolidated Statements of Financial Position
(In thousands)

	December 31,			
Assets		**2008**		**2007**
Cash and cash equivalents	$	4,890	$	8,839
Marketable securities		21,957		10,606
Receivables		11,539		14,142
Advances to an unconsolidated affiliate		3,229		3,279
Restricted cash		843		750
Interest in net assets of an unconsolidated affiliate		2,513		4,798
Land, buildings, and equipment, net		50,884		51,822
Assets of tax credit housing projects		9,585		10,047
Other assets		2,038		2,266
Total assets	$	107,478	$	106,549
Liabilities and Net Assets				
Accounts payable and accrued liabilities	$	18,012	$	16,398
Note payable		685		1,062
Long-term debt		20,300		21,058
Liabilities of tax credit housing projects		2,394		2,456
Total liabilities		41,391		40,974
Commitments and contingencies				
Other owners' interests in consolidated entities		3,634		3,900
Net assets:				
Unrestricted:				
Designated		36,600		35,149
Undesignated		19,828		21,125
		56,428		56,274
Temporarily restricted		5,511		4,889
Permanently restricted		514		512
Total net assets		62,453		61,675
Total liabilities and net assets	$	107,478	$	106,549

See accompanying notes to consolidated financial statements.

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES

Consolidated Statements of Activities

(In thousands)

	Years Ended December 31,	
	2008	**2007**
Change in unrestricted net assets:		
Revenues and support:		
Medicaid fees	$ 46,264	$ 38,673
State contract	10,780	9,983
County contract	6,259	6,259
Other contracts and grants	13,679	14,002
Flex Care revenue	210	11,623
Revenues of nursing home entities	9,581	9,463
Service fees	5,090	4,186
Other revenue	3,150	3,166
Revenues of tax credit housing projects	765	756
Increase (decrease) in interest in net assets of an unconsolidated affiliate	(2,959)	1,013
Total unrestricted revenues and support	92,819	99,124
Expenses:		
Program services:		
Adult services	32,406	31,141
Children services	24,356	24,749
Client services	1,920	1,936
Contract services	4,687	3,789
Senior services	7,253	12,644
Behavioral Health Strategies	870	726
Nursing home entities	9,130	9,123
Housing and building projects	2,764	2,978
Supporting services:		
Management and general	9,545	9,678
Total expenses	92,931	96,764
Increase (decrease) in unrestricted net assets before effect of adoption of FASB Statement No. 158	(112)	2,360
Effect of adoption of FASB Statement No. 158 (see Note 16)	-	(1,312)
Increase (decrease) in unrestricted net assets	(112)	1,048
Change in temporarily restricted net assets-		
Increase (decrease) in interest in net assets of an unconsolidated affiliate	622	(117)
Change in permanently restricted net assets-		
Increase in interest in net assets of an unconsolidated affiliate	2	1
Increase in net assets before other owners' interest in the change in net assets	512	932
Other owners' interest in the change in net assets	266	283
Increase in net assets	778	1,215
Net assets, beginning of year	61,675	60,460
Net assets, end of year	$ 62,453	$ 61,675

See accompanying notes to consolidated financial statements.

	Program Services			
	Adult Services	Children Services	Client Services	Contract Services
Salaries	$ 14,698	$ 12,835	$ 1,120	$ 2,274
Health and retirement benefits	3,408	3,137	312	556
Payroll taxes, etc.	1,144	972	112	158
Total salaries and related expenses	19,250	16,944	1,544	2,988
Contracted hospital costs	5,326	1,390	4	827
Property and bed taxes	-	-	-	-
Professional fees and contract service payments	2,969	1,765	26	79
Assisted living center and other expenses	-	-	-	-
Rent	38	-	-	10
Provisions	748	829	6	55
Office operations	376	214	40	144
Insurance	425	358	20	70
Utilities	595	435	60	127
Transportation	244	375	96	78
Maintenance	1,110	911	52	101
Education and training	110	73	37	50
Expenses of tax credit housing projects	-	-	-	-
Miscellaneous	84	21	2	39
Total expenses before depreciation, amortization, and interest expense	31,275	23,315	1,887	4,568
Depreciation and amortization	774	686	32	117
Interest expense	357	355	1	2
Total expenses	$ 32,406	$ 24,356	$ 1,920	$ 4,687

See accompanying notes to consolidated financial statements.

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES
Consolidated Statement of Functional Expenses
(In thousands)

Year Ended December 31, 2008

Program Services					Supporting Services	
Senior Services	Behavioral Health Strategies	Nursing Home Entities	Housing and Building Projects	Total	Management and General	Total
$ 4,294	$ 388	$ 3,821	$ 383	$ 39,813	$ 3,872	$ 43,685
1,140	-	15	99	8,667	1,620	10,287
288	-	294	27	2,995	472	3,467
5,722	388	4,130	509	51,475	5,964	57,439
-	-	1,287	-	8,834	-	8,834
-	-	400	-	400	-	400
54	259	506	14	5,672	1,644	7,316
100	-	-	-	100	-	100
58	14	87	5	212	18	230
208	-	743	-	2,589	29	2,618
47	176	516	41	1,554	619	2,173
115	-	318	31	1,337	67	1,404
180	-	131	157	1,685	145	1,830
205	-	7	12	1,017	38	1,055
232	1	46	398	2,851	192	3,043
17	-	-	5	292	261	553
-	-	-	1,257	1,257	-	1,257
8	-	182	17	353	10	363
6,946	838	8,353	2,446	79,628	8,987	88,615
306	32	339	252	2,538	527	3,065
1	-	438	66	1,220	31	1,251
$ 7,253	$ 870	$ 9,130	$ 2,764	$ 83,386	$ 9,545	$ 92,931

	Program Services			
	Adult Services	Children Services	Client Services	Contract Services
Salaries	$ 14,726	$ 12,730	$ 1,123	$ 1,916
Health and retirement benefits	3,498	3,249	371	527
Payroll taxes, etc.	1,129	989	124	145
Total salaries and related expenses	19,353	16,968	1,618	2,588
Contracted hospital costs	3,964	1,825	1	561
Property and bed taxes	-	-	-	-
Professional fees and contract service payments	3,379	1,792	4	75
Assisted living center and other expenses	-	-	-	-
Rent	54	-	-	10
Provisions	676	853	2	45
Office operations	198	119	42	32
Insurance	386	293	6	64
Utilities	592	448	63	91
Transportation	232	406	90	65
Maintenance	1,037	921	47	99
Education and training	101	86	29	36
Expenses of tax credit housing projects	-	-	-	-
Miscellaneous	62	13	2	7
Total expenses before depreciation, amortization, and interest expense	30,034	23,724	1,904	3,673
Depreciation and amortization	762	686	32	115
Interest expense	345	339	-	1
Total expenses	$ 31,141	$ 24,749	$ 1,936	$ 3,789

See accompanying notes to consolidated financial statements.

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES
Consolidated Statement of Functional Expenses
(In thousands)

Year Ended December 31, 2007

Program Services					Supporting Services	
Senior Services	Behavioral Health Strategies	Nursing Home Entities	Housing and Building Projects	Total	Management and General	Total
$ 3,919	$ 70	$ 3,861	$ 350	$ 38,695	$ 3,907	$ 42,602
1,115	-	10	95	8,865	1,972	10,837
262	-	315	25	2,989	496	3,485
5,296	70	4,186	470	50,549	6,375	56,924
-	-	1,151	-	7,502	-	7,502
-	-	355	-	355	-	355
105	561	493	22	6,431	1,195	7,626
6,040	-	-	-	6,040	-	6,040
29	16	118	8	235	5	240
201	-	692	-	2,469	73	2,542
44	50	478	46	1,009	669	1,678
101	-	350	24	1,224	63	1,287
181	-	137	283	1,795	160	1,955
196	-	6	13	1,008	37	1,045
121	-	39	552	2,816	295	3,111
15	-	-	4	271	247	518
-	-	-	1,250	1,250	-	1,250
7	-	286	17	394	3	397
12,336	697	8,291	2,689	83,348	9,122	92,470
306	29	330	222	2,482	519	3,001
2	-	502	67	1,256	37	1,293
$ 12,644	$ 726	$ 9,123	$ 2,978	$ 87,086	$ 9,678	$ 96,764

VALLEY MENTAL HEALTH, INCORPORATED AND AFFILIATES
Consolidated Statements of Cash Flows
(In thousands)

Years Ended December 31,

	2008	2007
Cash flows from operating activities:		
Increase in net assets	$ 778	$ 1,215
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,065	3,001
(Gain) loss on disposition of assets	(1)	513
Other owners' interest in the change in net assets	(266)	(592)
Effect of adoption of new accounting principle	-	1,312
Net increase in interest in net assets of unconsolidated affiliate	(119)	(897)
Realized and unrealized losses on marketable securities	681	355
(Increase) decrease in:		
Receivables	2,603	4,080
Assets of tax credit housing projects	462	456
Other assets	202	(274)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,614	(7,054)
Liabilities of tax credit housing projects	(62)	(68)
Net cash provided by operating activities	8,957	2,047
Cash flows from investing activities:		
Net increase in marketable securities	(12,032)	(194)
Proceeds received from an unconsolidated affiliate	2,404	669
Purchases of land, buildings and equipment	(2,106)	(1,275)
Decrease (increase) in restricted cash	(93)	255
(Increase) decrease in advances to an unconsolidated affiliate	50	(671)
Proceeds from sale of assets	6	514
Net cash used in investing activities	(11,771)	(702)
Cash flows from financing activities:		
Payments on long-term debt	(758)	(1,824)
Net decrease in note payable	(377)	(376)
Proceeds from long-term debt	-	4
Net cash used in financing activities	(1,135)	(2,196)
Net decrease in cash and cash equivalents	(3,949)	(851)
Cash and cash equivalents at beginning of year	8,839	9,690
Cash and cash equivalents at end of year	$ 4,890	$ 8,839

1. Organization and Summary of Significant Accounting Policies

Organization

Valley Mental Health, Incorporated is a tax-exempt, "not-for-profit" corporation domiciled in the State of Utah. The Organization, and its related entities, provide and administer mental health and substance abuse treatments, and other services, principally in the Salt Lake, Summit and Tooele counties of Utah.

Consolidated Financial Statements

The consolidated financial statements are presented using the accrual method of accounting, and include the accounts of Valley Mental Health, Incorporated and the following affiliated organizations:

- Salt Lake Mental Health Housing, Inc.
- Valley Villa, Inc.
- Valley Crossroads, Inc.

These not-for-profit entities are housing projects constructed using financing obtained through the U.S. Department of Housing and Urban Development (HUD). Valley Mental Health, Incorporated houses individuals (clients) who have received, or are receiving, mental health, substance abuse or other related services provided by the Organization in each of these apartment projects. These entities are consolidated due to Valley Mental Health, Incorporated's control of the boards of directors of these entities.

- Behavioral Health Strategies, LLC (a West Virginia Limited Liability Company)

This LLC is a 100% owned subsidiary of Valley Mental Health, Incorporated.

- Avalon Valley nursing home entities (Avalon Valley)

Avalon Valley consists of Avalon Valley Rehabilitation Center, Inc. (an S Corporation) and Avalon Valley Care Center, LLC. Valley Mental Health, Incorporated has a 51% ownership interest in both of these entities. These entities facilitate placement and treatment of certain, difficult to place, mental health clients.

1. Organization and Summary of Significant Accounting Policies *Continued*

Consolidated Financial Statements - Continued

- Safe Haven II, LLC
- Valley Horizons, LLC
- Valley Meadows, LLC
- Valley Safe Haven, LLC
- Valley Woods I, L.C.

These limited liability companies are tax credit projects that house clients of Valley Mental Health, Incorporated. These companies are consolidated in accordance with the guidance of Emerging Issues Task Force Issue No. 04-5 (EITF 04-5) *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.* EITF 04-5 requires general partners to consolidate limited partnerships when they control a limited partnership (or a limited partnership equivalent entity) regardless of the extent of the general partners' ownership interest.

All material inter-organization transactions and accounts have been eliminated in the consolidation. The consolidated group is referred to as "VMH", "Valley Mental Health" or the "Organization" throughout the remaining notes to the consolidated financial statements.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of Credit Risk

A significant portion of the Organization's revenues and receivables are from government agencies. Receivables from government agencies total $9,607 and $9,319 as of December 31, 2008 and 2007, respectively.

1. Organization and Summary of Significant Accounting Policies ***Continued***

Concentrations of Credit Risk - Continued

The Organization maintains cash in various bank deposit accounts where the amounts often exceed the insured limit on deposits in an FDIC (Federal Deposit Insurance Corporation) member institution. In October 2008, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC deposit insurance from $100 to $250 per depositor through December 31, 2009. As of December 31, 2008, the Organization had $1,392 of cash in bank deposit accounts that exceeded FDIC insured limits. The Organization also maintains cash equivalents in money market mutual funds. As of December 31, 2008, the Organization had $3,543 of cash equivalents invested in a money market mutual fund. These cash equivalents are usually not insured by any federal program, but as of December 31, 2008 and through September 18, 2009, they are insured through the U.S. Treasury's Temporary Guarantee Program for Money Market Funds. To date, the Organization has not experienced any losses related to such accounts; however, no assurance can be provided that access to the Organization's cash will not be impacted by adverse conditions in the financial markets.

Fair Value of Financial Instruments

The recorded amounts for investments, receivables, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these financial instruments. The fair value of the amount outstanding under the Organization's note payable approximates its recorded value, in all material respects, due to the fact that the note bears interest at a variable market rate. Management estimates that the fair value of long-term debt does not differ materially from the aggregate carrying values of its long-term debt recorded in the accompanying consolidated statements of financial position.

Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Marketable Securities

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets.

1. Organization and Summary of Significant Accounting Policies
Continued

Receivables
Receivables are carried at the original billed amount less an estimate made for potentially uncollectible amounts. The Organization extends credit to its clients on a short-term basis and has a substantial number of cost reimbursement type contracts. The Organization's receivables generally do not bear interest.

A receivable is considered to be past due if any portion of the receivable is outstanding for more than 30 days. Management determines the need for an allowance for doubtful accounts by identifying specific troubled accounts. Receivables are written off when all collection efforts have been exhausted and the receivable is deemed uncollectible. Recoveries of receivables previously written off are recorded when payment is received.

Interest in Net Assets of and Advances to Other Organizations
VMH accounts for transfers of assets to another nonprofit organization, which meets specified criteria, by applying the provisions of Statement of Financial Accounting Standards No. 136 "Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others" (SFAS No. 136). Under the provisions of SFAS No. 136, VMH recognizes an interest in the net assets of and changes in net assets of the other nonprofit organization. VMH recognizes "Advances to an unconsolidated affiliate" for funds transferred from VMH to another nonprofit organization for which VMH expects repayment in the future to support its programs.

Restricted Cash
Restricted cash represents cash accounts held by affiliates in accordance with operating agreements or HUD requirements as of December 31, 2008 and 2007.

Land, Buildings and Equipment
The Organization capitalizes purchases of land, buildings and equipment at cost. The fair value of donated land, buildings and equipment is similarly capitalized. Minor replacements, maintenance and repairs, which do not increase the useful lives of the property, are expensed as incurred.

1. Organization and Summary of Significant Accounting Policies
Continued

Land, Buildings and Equipment - Continued
Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or lease terms. Useful lives are as follows:

	Useful Lives in Years
Buildings	27-30
Building improvements	10-15
Office furniture and equipment	3-7
Automobiles and trucks	5-7

Investments in Unconsolidated Affiliates
The Organization has a non-controlling ownership interest in certain companies. When the Organization's ownership is less than 20%, the investment is recorded using the cost method of accounting, and when ownership is 20% or more, the investment is accounted for using the equity method. Investments in such companies are included under the caption "Other Assets" in the consolidated statements of financial position.

Impairment of Long-Lived Assets
VMH reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the consolidated statement of activities.

Interest Rate Swap Arrangement
The Organization has entered into an interest rate swap arrangement to modify the interest characteristics of a portion of its outstanding long-term debt in an effort to hedge against interest rate fluctuations. The swap involves the exchange of an amount based on a variable interest rate for an amount based on a fixed interest rate over the life of the swap without an exchange of the notional amount upon which the payment is based. The interest rate swap arrangement is recorded at its fair value and is included in long-term debt in the accompanying statements of financial position.

Revenue Recognition
Service revenue is recognized in accordance with the terms of service contracts and as the services are provided. Generally, revenue is recognized when services have been performed, and collection is reasonably assured.

1. Organization and Summary of Significant Accounting Policies *Continued*

Revenue Recognition - Continued
Rental revenue is recognized proportionately over the rental term and when collection is reasonably assured. Rent collected in advance is recorded as deferred revenue until earned

Contributions
Contributions received, if any, are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Property and Equipment
Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services
Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by VMH. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs and assignments; however, those services generally do not meet the above criteria.

1. Organization and Summary of Significant Accounting Policies
Continued

Income Tax Status

Valley Mental Health, Incorporated, Salt Lake Mental Health Housing, Inc., Valley Villa, Inc. and Valley Crossroads, Inc. are qualified charitable organizations under Section 501(c)(3) of the Internal Revenue Code. These entities do not file corporate tax returns, but do file an annual Form 990 informational return. Furthermore, these entities are not subject to income taxes on related business income, but are subject to tax on unrelated business income, if any.

Behavioral Health Strategies, LLC is a disregarded entity for income tax purposes. The operations and balances of this limited liability company are combined with VMH for Internal Revenue Service (IRS) reporting purposes.

Avalon Valley Care Center, LLC, Safe Haven II, LLC, Valley Horizons, LLC, Valley Meadows, LLC, Valley Safe Haven, LLC and Valley Woods I, L.C. are pass-through entities for income tax purposes. VMH is only subject to tax on its proportionate share of unrelated business income generated by these entities, if any.

The Organization’s ownership interest in Avalon Valley Rehabilitation Center, Inc. (AVRC) (an S Corporation) subjects the Organization to unrelated business income tax on allocations of profit from AVRC. AVRC recognized net losses for the years ended December 31, 2008 and 2007. Therefore, no provision for income taxes has been recorded.

Uncertain Tax Positions

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. When FIN 48 is implemented, reporting entities will utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. As deferred by the guidance in FSP FIN 48-3, the Organization is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Organization has not implemented those provisions in the 2008 financial statements.

(In thousands)

1. Organization and Summary of Significant Accounting Policies ***Continued***

Uncertain Tax Positions - Continued

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Organization continues to utilize its prior policy of accounting for all tax positions, following the guidance in SFAS No. 5, Accounting for Contingencies. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain indirect costs have been allocated among the programs and supporting services benefited.

Reclassification

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform with the current year presentation.

New Accounting Pronouncement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements.* SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 was effective for the Organization as of January 1, 2008 (see Note 11).

2. Marketable Securities

Marketable securities are stated at fair value and consist of the following:

	December 31, 2008	December 31, 2007
Government securities	$ 15,621	$ 10,606
Mortgage backed securities	3,711	-
Corporate debt securities	2,625	-
	$ 21,957	$ 10,606

(In thousands)

2. Marketable Securities ***Continued***

Investment return is summarized as follows for the years ended December 31:

	2008	2007
Interest income, net of fees	$ 789	$ 672
Net realized and unrealized gains	641	355
	$ 1,430	$ 1,027

3. Detail of Certain Balances

Receivables	December 31, 2008	December 31, 2007
Cost reimbursement and fee-for-service contracts with government agencies	$ 9,607	$ 9,319
Receivables from clients, insurance companies and other non-government agencies, net of an allowance for doubtful accounts of $94 and $114, respectively	2,006	4,443
Related party receivables	736	380
	$ 12,349	$ 14,142

Accounts Payable and Accrued Liabilities	December 31, 2008	December 31, 2007
Contract related liabilities	$ 5,633	$ 5,691
Accrued payroll, payroll taxes and other benefits	6,600	5,767
Accrued vacation and sick pay	2,486	2,637
Trade accounts payable	2,540	1,983
Other accrued liabilities	753	320
	$ 18,012	$ 16,398

(In thousands)

4. Interest in Net Assets and Advances to an Unconsolidated Affiliate

The Organization has an affiliate, Valley Mental Health Foundation, Inc. (the "Foundation"), that does not meet the criteria to be consolidated. The "Interest in net assets of an unconsolidated affiliate" represents VMH's interest in the net assets of the Foundation. "Advances to an unconsolidated affiliate" represents amounts transferred from VMH to the Foundation which will either be returned to VMH or used for VMH programs. VMH does not grant variance power to the Foundation.

VMH's consolidated financial statements reflect the following with respect to the Foundation as of December 31:

	2008	2007
Advances to an unconsolidated affiliate	$ 3,229	$ 3,279
Interest in the net assets of an unconsolidated affiliate	2,513	4,798
	$ 5,742	$ 8,077

VMH recognized the following in its consolidated statements of activities with respect to the Foundation for the years ended December 31:

	2008	2007
(Decrease) increase in interest in the unrestricted net assets of an unconsolidated affiliate	$ (2,149)	$ 1,013
Increase (decrease) in interest in the temporarily restricted net assets of an unconsolidated affiliate	622	(117)
Increase in interest in the permanently restricted net assets of an unconsolidated affiliate	2	1
	$ (1,525)	$ 897

(In thousands)

5. Land, Buildings and Equipment

Land, buildings and equipment consist of the following at December 31:

	2008	2007
Land	$ 10,322	$ 10,322
Land improvements	1,115	1,107
Buildings	49,156	49,156
Building improvements	5,817	5,067
Office furniture and equipment	10,417	9,627
Automobiles and trucks	1,737	1,735
Construction in progress	429	-
Total cost	78,993	77,014
Less accumulated depreciation and amortization	(28,109)	(25,192)
	$ 50,884	$ 51,822

6. Tax Credit Housing Projects

As of December 31, 2008 and 2007, the Organization had recorded the following related to tax credit housing projects in the consolidated statements of financial position: (1) assets of $9,585 and $10,047, respectively (primarily land, buildings and equipment); (2) liabilities of $2,394 and $2,456, respectively, including long-term debt, of which $74 is due by December 31, 2009; (3) other owners' interest in tax credit housing projects of $3,327 and $3,850, respectively, which is part of "other owners' interests in consolidated entities"; and (4) net assets of $3,864 and $3,741, respectively. The consolidated statements of activities for the years ended December 31, 2008 and 2007, include the following related to the tax credit housing projects: (1) revenues of $765 and $756, respectively; (2) expenses of $1,256 and $1,250, respectively; and (3) other owners' interest in the change in net assets of $524 and $515, respectively.

7. Note Payable

Avalon Valley Care Center, LLC has a $2,000 unsecured line of credit agreement with a bank. As of December 31, 2008 and 2007, Avalon Valley had borrowed $685 and $1,062, respectively, under the agreement. The agreement expires on October 1, 2010. The interest rate is half a percent above the prime rate (3.75% at December 31, 2008). The line of credit is guaranteed by members of Avalon Valley Care Center, LLC, including Valley Mental Health, Incorporated.

(In thousands)

8. Long-term Debt

Long-term debt consists of the following at December 31:

	2008	2007
Loan payable (see note 9)	$ 12,510	$ 13,185
Mortgage note payable by Avalon Valley Rehabilitation Center, Inc. to a financial institution. Due in monthly payments of $37,127, including interest at 6.375%. The note matures in August 2039, is secured by real property and insured by HUD.	5,995	6,055
Mortgage note payable by a consolidated affiliate to HUD with an interest rate of 9.25%, due in 2028, payable in monthly installments of $6,570, secured by real property.	707	719
Note payable to a company, due in annual installments of approximately $41,000 including interest at 7%, secured by real estate	-	7
Capital lease obligations (see note10)	446	711
	19,658	20,677
Interest rate swap arrangement	642	381
	$ 20,300	$ 21,058

(In thousands)

8. Long-term Debt
Continued

Future maturities of long-term debt are as follows:

Years Ending December 31:		
2009	$	1,047
2010		973
2011		896
2012		938
2013		965
Thereafter		14,839
	$	19,658

9. Loan Payable and Interest Rate Swap Arrangement

Funding was made available to VMH through Salt Lake City (the City) by the City's issuance of Variable Rate Revenue Bonds (the Bonds). Proceeds from the sale of the Bonds by the City were loaned to VMH for the construction of two buildings under the terms of a loan agreement.

VMH delivered to a trustee an irrevocable letter of credit to secure repayment of the bond proceeds. Under the letter of credit, the trustee has the ability to draw an amount sufficient to pay the principal of the Bonds and up to 45 days of accrued interest. The letter of credit is secured by land and buildings and expires December 2011.

Interest on the loan to VMH is equivalent to the interest rate on the associated bonds issued by the City. As of December 31, 2008, the interest rate was being set weekly. The interest rate as of December 31, 2008 was 1.01%. The loan matures December 2021. Annual mandatory principal payments are due December 1 each year. The amount outstanding as of December 31, 2008 and 2007 was $12,510 and $13,185, respectively.

Interest Rate Swap Arrangement

VMH has entered into an interest rate swap arrangement to obtain a fixed rate on a portion of its variable-rate loan from the City. The total notional amount of the swap was $6,255 and $6,593 at December 31, 2008 and 2007, respectively. This cash flow hedge changes the variable-rate interest on the notional amount of VMH's bonds to a fixed-rate interest. Under the terms of the swap (which expires June 1, 2014), VMH pays monthly a fixed interest rate of

(In thousands)

9. Loan Payable and Interest Rate Swap Arrangement *Continued*

***Interest Rate Swap Arrangement** – Continued*

4.25%. VMH receives monthly the floating variable interest rate based upon the daily interest rate resets of tax-exempt variable rate issues on the interest rate swap. The fair value of the interest rate swap arrangement as of December 31, 2008 and 2007 was a liability of approximately $642 and $381, respectively.

The fair value of the interest rate swap arrangement is derived from a proprietary model of the financial institution with which the Organization entered into the swap.

10. Capital Lease Obligations

VMH leases certain equipment and fixtures under noncancellable leases that meet the criteria to be accounted for as capital leases. Assets under these capital leases included in land, buildings and equipment are as follows as of December 31, 2008:

Office furniture and equipment	$ 891
Less accumulated amortization	(471)
	$ 420

Amortization expense for assets under capital leases during the years ended December 31, 2008 and 2007 was $263 and $265, respectively.

The capital lease obligations have imputed interest rates ranging from 6% to 20%, are payable in aggregate monthly installments of approximately $25 and mature January 2009 through December 2012. The leases are secured by equipment. Future minimum payments on the capital lease obligations are as follows:

Years Ending December 31:	Amount
2009	$ 286
2010	155
2011	30
2012	21
	492
Less amount representing interest	(46)
Present value of future minimum lease payments	$ 446

(In thousands)

11. Fair Value Measurements

Effective January 1, 2008, the Organization adopted the provisions of SFAS No. 157, Fair Value Measurements, for the financial assets and liabilities which were measured at fair value on a recurring basis. SFAS No. 157 establishes a framework for measuring fair value in the form of a fair value hierarchy which prioritizes inputs into valuation techniques used to measure fair value into three broad levels. This hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). Further, financial assets and liabilities should be classified by level in the entirety based upon the lowest level of input that was significant to the fair value measurement. The three levels of the fair value hierarchy per SFAS No. 157 are as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Quoted prices in inactive markets for identical assets or liabilities, quoted prices for similar assets or liabilities in active markets, or other observable inputs either directly related to the asset or liability or derived principally from corroborated observable market data.

Level 3: Unobservable inputs due to the fact that there is little or no market activity. This entails using assumptions in models of the fair value hierarchy:

The following table summarizes the Organization's financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008, and the fair value calculation input hierarchy level that the Organization has determined applies to each asset and liability category:

	Balance at December 31, 2008	Input Hierarchy Level
Marketable securities	$ 21,957	Level 1
Interest rate swap arrangement	$ 642	Level 2

(In thousands)

12. Designation of Unrestricted Net Assets

The Board of Trustees has designated a portion of VMH's unrestricted net assets, to provide for replacement and upgrade of furnishings and equipment, ninety days of working capital, for certain programs, and other purposes.

13. Restrictions on Net Assets

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes at December 31:

	2008	2007
HUD capital advances to Valley Villa, Inc. and Valley Crossroads, Inc.	$ 2,288	$ 2,288
CBTU/Autism	2,504	1,690
Safe Haven/Homeless	641	716
Other	78	51
	$ 5,511	$ 4,745

No repayment of the capital advances is required and no interest will accrue as long as the apartments owned by Valley Villa, Inc. and Valley Crossroads, Inc. remain available for low-income persons with disabilities in accordance with Section 811 of the Affordable Housing Act of 1990, and the regulatory agreements with HUD.

Provided that the housing has remained available for occupancy by eligible families until the maturity date of the capital advance notes (September 2035 for Valley Villa, Inc. and April 2037 for Valley Crossroads, Inc.) and the notes have not otherwise become due and payable by reason of default under the notes or regulatory agreements, the notes shall be deemed to be paid and discharged on the maturity date.

In the event of default, the entire balance can be declared due and payable by HUD, and interest would be accrued from the date of the initial capital advances received.

13. Restrictions on Net Assets *Continued*

Permanently Restricted

Permanently restricted net assets of $500 represent a general endowment fund held by Valley Mental Health Foundation, Inc. The endowment principal is to be retained and invested. The earnings from the $500 endowment are available for unrestricted use by Valley Mental Health, Foundation, Inc. Permanently restricted net assets of $14 and $12 as of December 31, 2008 and 2007, respectively, represent an endowment fund for services to children.

14. Contracts

VMH has entered into agreements with Salt Lake County, Summit County, and Tooele County, Utah (the Counties) to provide substantially all of the mental health services which are required to be provided by the Counties. In addition, VMH has agreements to provide substantially all substance abuse prevention and treatment services in Summit and Tooele Counties and a portion of those services in Salt Lake County. Under the terms of these agreements, VMH provides certain mutually agreed upon mental health and substance abuse prevention and treatment services in exchange for fees which are mutually negotiated annually based on VMH's costs and other revenue sources. The Counties have also assigned to VMH their interest in various contracts with other governmental agencies to provide these services.

15. Retirement Plans

The Organization participates in a multi-employer defined benefit retirement plan administered by Utah Retirement Systems (the “Plan”). Contributions on behalf of employees are determined in accordance with provisions of the Plan. Information as to the Organization's portion of the accumulated Plan benefits, Plan net assets and unfunded vested benefits is not determinable. In the event of withdrawal from the Plan, the Organization may be subject to payment of a withdrawal liability. Management does not intend to take any action which would subject it to such liability. Also, Utah State law only allows withdrawals under certain limited circumstances.

In addition to the above plan, the Organization has defined contribution retirement plans covering eligible employees. These plans are funded by employee contributions and, for one plan, contributions are made by the Organization at a set percent of the participating employees’ compensation.

15. Retirement Plans *Continued*

The Organization contributed approximately $4,737 and $4,645 to the above described plans during the years ended December 31, 2008 and 2007, respectively.

16. Post-Retirement Benefits

VMH provides post-retirement medical insurance benefits for employees and their dependents who have retired from VMH, qualify under the provisions of the post-retirement benefit plan, and are under the age of 65. The benefit is terminated once the retiree reaches the age of 65, and terminates for the employee's spouse once he/she reaches the age of 65. The retiree is responsible for a portion of the insurance premium.

Changes to the post-retirement benefit plan were adopted by the Organization's Board of Trustees in November 2008. Those changes became effective for participants who retire on or after January 6, 2009. The changes establish an account for each retiree equal to 75% of unused sick leave hours times the greater of the participant's hourly rate at retirement or $25. Premiums are paid from the account. If the account is exhausted before age 65, the retiree may continue coverage by paying the full premium.

Additional changes to the post-retirement benefit plan were adopted by the Organization's Board of Trustees in January 2009. Effective January 1, 2009, new employees are no longer eligible to participate in the post-retirement benefit plan. Effective July 1, 2009, the Organization will no longer pay any portion of the premium for retirees who have exhausted their eligible sick leave and the conversion ratio of sick leave hours to premiums will be reduced.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158 (SFAS 158). The statement requires an employer to:

- Recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in its statement of financial position.

- Recognize the gains or losses and prior service costs or credits, net of tax, that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers Accounting for Pensions,* or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

(In thousands)

16. Post-Retirement Benefits
Continued

The adoption date required for VMH was the first fiscal year ending after June 15, 2007. VMH adopted this standard for the year ended December 31, 2007.

The following tables provide information relating to the postretirement benefit plan as of and for the years ended December 31, 2008 and 2007.

Obligations and Funded Status

	2008	2007
Benefit obligation	$ 2,792	$ 3,319
Market value of plan assets	$ -	$ -
Funded status	$ (2,792)	$ (3,319)
Employer contributions	$ 332	$ 402
Plan participants' contributions	$ 157	$ 126
Benefits paid	$ 311	$ 487

Net periodic benefit cost and other amounts recognized in unrestricted net assets for the year ended December 31:

	2008	2007
Benefit cost	$ 398	$ 573
Other changes in benefit obligation recognized in unrestricted net assets:		
Net loss (gain)	838	272
Prior service cost	(1,432)	1,040
Total recognized in unrestricted net assets	(594)	1,312
Total recognized in benefit cost and unrestricted net assets	$ (196)	1,885

Weighted average assumptions for net benefit costs as of December 31:

	2008	2007
Discount rate	5.89%	5.75%
Rate of compensation increase	N/A	N/A
Long-term rate of return	N/A	N/A

(In thousands)

16. Post-Retirement Benefits
Continued

Weighted average assumptions for benefit obligations as of December 31:

	2008	**2007**
Discount rate	6.00%	5.75%
Rate of compensation increase	N/A	N/A
Long-term rate of return	N/A	N/A

Assumed health care cost trends as of December 31:

	2008	**2007**
Health care cost trend assumed for next fiscal year	7.50%	9.00%
Average rate to which the cost trend is assumed to decline (ultimate trend rate)	.035%	1.00%
Year that the rate reaches the ultimate trend rate	2078	2012

VMH expects to contribute $394 to the postretirement benefit plan during 2009.

Estimated future benefit payments:

Years Ending December 31:	**Amount**
2009	$ 691
2010	751
2011	786
2012	754
2013	772
2014-2017	3,973
Total	$ 7,727

17. Commitments and Contingencies

Long Term Contracts

VMH has entered into numerous agreements with government agencies and private entities to provide mental health and other services. The terms of these agreements may require adjustments to be made to revenues received based on events which are not currently determinable. The amount of these adjustments, if any, is also not currently estimable. Such adjustments could be material to the consolidated financial statements.

(In thousands)

17. Commitments and Contingencies *Continued*

Litigation
In the normal course of operations, the Organization may become party to claims and/or lawsuits. The amount, if any, to be paid by the Organization in connection with this litigation is not estimable and the likelihood of an unfavorable outcome is not currently determinable. Management believes damages (if any) resulting from claims are adequately insured and will not have a material adverse effect on the Organization's financial position.

Contract Guarantees Related to Tax Credit Projects
Under the terms of operating agreements for the tax credit housing projects, VMH has agreed to reimburse the investor member of the projects for shortfalls in tax credits obtained for the project in comparison to projected tax credits, and to provide certain loans for operating deficits, if needed. The regulations related to tax credit projects are complex. Noncompliance with these regulations may result in the loss of tax credits associated with a project. At this time, the Organization is not aware of noncompliance matters that would result in a reduction of tax credits.

Operating Leases
The Organization leases property under operating leases. Minimum future rental payments due under non-cancelable operating leases are approximately as follows:

Years Ending December 31:		
2009	$	79
2010		71
2011		49
2012		4
2013		2
	$	205

Rent expense related to these non-cancelable operating leases was approximately $98 and $109 for the years ended December 31, 2008 and 2007, respectively.

(In thousands)

18. Supplemental Disclosure of Cash Flow Information

During the year ended December 31, 2008, there were no non-cash investing and financing transactions.

During the year ended December 31, 2007:

- VMH acquired equipment financed through capital leases in the amount of $740
- A consolidated affiliate of the Organization paid dividends to minority interest holders of $309.

Amounts paid for:

	Years Ended December 31, 2008	Years Ended December 31, 2007
Interest	$ 1,400	$ 1,400
Income taxes	$ -	$ -

19. Related Party Transactions

The Organization has entered into a number of related party transactions with the following entities:

Valley Mental Health Foundation, Inc.
(the Foundation), a Utah not-for-profit corporation organized to raise funds for Valley Mental Health, Incorporated's programs and facilities. Certain board members of the Foundation are members of the Valley Mental Health, Incorporated board or management. The following transactions occurred during the years ended December 31, 2008 and 2007:

- Valley Mental Health, Incorporated paid the salary and benefits of an individual who works exclusively for the Foundation as well as certain other costs of the Foundation totaling approximately $105 and $99 for the years ended December 31, 2008 and 2007, respectively;

19. Related Party Transactions *Continued*

Valley Mental Health Foundation, Inc.

- The Foundation transferred to Valley Mental Health, Incorporated, for support of its programs, approximately $909 and $795 for the years ended December 31, 2008 and 2007, respectively;

- Valley Mental Health, Incorporated had receivables totaling $0 and $207 from the Foundation at December 31, 2008 and 2007, respectively, included in related party receivables.

Valley Services, Inc. is a Utah not-for-profit corporation established primarily to employ VMH clients in performing buildings and grounds maintenance functions and other similar services. Certain Valley Mental Health, Incorporated board members and/or management are also members of the board of Valley Services, Inc. However, Valley Mental Health, Incorporated does not control a majority of board appointments. The following related party transactions occurred during the years ended December 31, 2008 and 2007:

- Total expenses recognized in 2008 and 2007 for services provided to VMH are approximately $2,985 and $3,213, respectively;

- One employee of Valley Services, Inc. is a current board member of VMH;

- Accounts payable and accrued liabilities to Valley Services, Inc., as of December 31, 2008 and 2007, are approximately $169 and $346, respectively;

- Valley Services paid Valley Mental Health, Incorporated rent of approximately $44 and $52, respectively, for 2008 and 2007, for lease of facilities during those years;

- Valley Mental Health, Incorporated has a contract with the Utah Department of Workforce Services in which Valley Mental Health, Incorporated contracted with Valley Services to perform the required services. For the years ended December 31, 2008 and 2007, Valley Mental Health, Incorporated paid Valley Services approximately $109 and $106, respectively.

19. Related Party Transactions
Continued

Hidden Oaks V, L.C., and Iron Horse Park, L.C.
Valley Mental Health, Incorporated has a .75% profit and loss sharing interest in two Utah limited liability companies; Hidden Oaks V, L.C., and Iron Horse Park, L.C. (the Projects). Both of these Projects operate low income housing apartments. These Projects have been awarded low-income housing tax credits which are utilized by the 99% owner of the Projects. VMH may have the option to acquire a majority interest in the Projects once the tax credits have been fully utilized and the compliance periods have expired. VMH plans to use future anticipated cash flows, if any, from these Projects to provide funds for mental health or substance abuse services.

- Valley Mental Health, Incorporated has a note receivable from Hidden Oaks V, LC totaling approximately $373 as of December 31, 2008 and 2007, respectively, with accrued interest receivable at December 31, 2008 and 2007, of approximately $672 and $592, respectively. These totals are included in other assets. The note receivable requires payment in full in 2013, bears interest at 8%, and is secured by real property;

- Valley Mental Health, Incorporated recognized interest income of approximately $80 and $74 related to the above note receivable during the years ended December 31, 2008 and 2007, respectively.

Mental Health Risk Retention Group
Valley Mental Health, Incorporated is a member of Mental Health Risk Retention Group (MHRRG), a captive insurance company for not-for-profit mental health entities. A key employee of Valley Mental Health, Incorporated serves as a board member of MHRRG. The following related party transactions occurred during the years ended December 31, 2008 and 2007:

- Valley Mental Health, Incorporated obtained its liability insurance coverage from MHRRG. Valley Mental Health, Incorporated paid premiums to MHRRG during 2008 and 2007, of approximately $420 and $407, respectively;

- During 2008 and 2007, Valley Mental Health, Incorporated received dividend income from MHRRG of approximately $41 and $43, respectively;

(In thousands)

19. Related Party Transactions *Continued*

Mental Health Risk Retention Group ***- Continued***

- A key employee of Valley Mental Health, Incorporated who serves on the board of MHRRG, receives $1 a year as compensation for services on that board.

Employee Owned Company
Valley Mental Health, Incorporated had an agreement with a company owned by employees to provide services to Valley Mental Health, Incorporated. During the years ended December 31, 2008 and 2007, Valley Mental Health, Incorporated paid this company approximately $159 and $260, respectively.

Board Member Affiliation
A member of the board of directors in an employee of the Organization's investment brokerage and primary bank.

20. Summarized Financial Data For Certain Unconsolidated Affiliates

Following is a summary of financial data for Valley Mental Health Foundation, Inc. and Valley Services, Inc. VMH exercises a certain amount of control over these entities, but VMH does not control a majority voting interest in the boards of directors of these entities.

	Valley Mental Health Foundation, Inc.	Valley Services, Inc.
December 31, 2008		
Total assets	$ 6,492	$ 971
Total liabilities	3,979	568
Net assets	2,513	403
Revenues	1,648	4,125
Expenses	3,933	4,448
December 31, 2007		
Total assets	$ 8,301	$ 1,213
Total liabilities	3,503	487
Net assets	4,798	726
Revenues	1,306	3,983
Expenses	1,079	4,339

VALLEY MENTAL HEALTH, INCORPORATED
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2008

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Numbers	Federal Expenditures
U.S. Department of Health and Human Services:			
Block Grant for Prevention and Treatment of Substance Abuse passed through Summit County	93.959	06-0008	$ 325,685
Block Grant for Prevention and Treatment of Substance Abuse passed through Tooele County	93.959	05-2367	395,461
Total 93.959*			721,146
Block Grant for Community Mental Health Services passed through Salt Lake County	93.958	06-0305	816,800
Block Grant for Community Mental Health Services Passed through Summit County	93.958	06-0007	32,588
Block Grant for Community Mental Health Services Passed through Tooele County	93.958	05-2464	45,779
Total 93.958*			895,167

* Denotes a major program

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Numbers	Federal Expenditures
U.S. Department of Health and Human Services (continued):			
Refugee and Entrant Assistance passed through Utah Department of Workforce Services	93.566	00-2007	$ 177
Strategic Prevention Framework State Incentive Grant passed through State Department of Human Services, Division of Substance Abuse and Mental Health and Tooele County	93.243	08-2018	100,000
Strategic Prevention Framework State Incentive Grant passed through State Department of Human Services, Division of Substance Abuse and Mental Health and Summit County	93.243	08-2052	63,858
Total 93.243			163,858
PATH Homeless Grant passed through Utah State Department of Human Services, Division of Mental Health and Salt Lake County	93.150	08-0400	246,000
Total U.S. Department of Health and Human Services			2,026,348

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantors' Numbers	Federal Expenditures
U.S. Department of Education:			
Drug Free Schools passed through Summit County	84.186B	06-0008	$ 9,753
Drug Free Schools passed through Tooele County	84.186B	05-2367	10,893
Total U.S. Department of Education			20,646
U.S. Department of Agriculture:			
National School Lunch Program, School Breakfast Program, and Food Distribution Program, passed through Utah State Office of Education	10.550 10.553 10.555	A-1 C-8	$ 161,438
Total U.S. Department of Agriculture			161,438
U.S. Department of Housing and Urban Development:			
Community Development Block Grant	14.218	BV03342	10,000
Emergency Shelter Grant	14.231	BV08504	30,172
Supportive Housing Grant	14.235	00-2007	199,858
Total U.S. Department of Housing and Urban Development			240,030
Total Federal expenditures			$ 2,448,462

Note 1 – Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of Valley Mental Health, Incorporated and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Valley Mental Health, Incorporated

We have audited the consolidated financial statements of Valley Mental Health, Incorporated and Affiliates (the Organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Valley Mental Health, Incorporated's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over consolidated financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs numbered 2008-1, 2008-3, 2008-5 and 2008-6 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the Organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs numbered 2008-4 to be a material weakness in internal control over financial reporting.

We also noted certain matters not considered significant deficiencies or material weaknesses that we reported to the management of the Organization in a separate letter dated April 21, 2009.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2008-2.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Trustees, management, others within the Organization, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by any one other than these specified parties.

April 21, 2009

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Valley Mental Health, Incorporated

Compliance

We have audited the compliance of Valley Mental Health, Incorporated (the Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended December 31, 2008. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Valley Mental Health, Incorporated complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs numbered 2008-3 and 2008-5 to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management, others within the Organization, Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

April 21, 2009

Section 1 – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_X_ yes	___ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_X_ yes	___ none reported
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs:

Material weakness identified?	___ yes	_X_ no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_X_ yes	___ none reported

Type of auditor's report issued on compliance for major programs: Unqualified.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_X_ yes	___ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.959	Block Grant for Prevention and Treatment of Substance Abuse
93.958	Block Grant for Community Mental Health Services

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee?	___ yes	_X_ no

Section II – Financial Statement Findings

<u>2008-1 Bank Reconciliations</u>

Criteria:
Timely reconciliation of bank accounts and subsequent review of those reconciliations by someone other than the preparer helps to ensure that cash is safeguarded and the general ledger is fairly stated.

Condition:
The Organization's bank accounts were not fully reconciled in a timely manner or reviewed by someone other than the preparer for several months during the year ended December 31, 2008.

Effect:
When bank reconciliations are not fully completed and reviewed in a timely manner, the likelihood of misappropriation of assets or errors in financial reporting is heightened.

Recommendation:
We recommend that management implement policies and procedures to ensure that bank accounts are fully reconciled and reviewed by someone other than the preparer on a monthly basis.

View of Responsible Officials and Planned Corrective Actions:

<u>2008-2 Timeliness of Billings</u>

Criteria:
Certain contracts require billings to be submitted within a specified number of days following month end.

Condition:
Several of the monthly billings for the State of Utah Mental Health and Substance Abuse contracts were not billed within the time requirements stated in the contracts.

Effect:
When billings are submitted late, the Organization is not in full compliance with the contracts, which could potentially result in lost revenue.

Recommendation:
We recommend that management establish procedures to ensure that billings are submitted within the required timeframe stated in the Organization's contracts.

View of Responsible Officials and Planned Corrective Actions:

2008-3 Contract Accounting

Criteria:
Contract revenues should be recorded on the accrual basis of accounting, reconciled to the general ledger monthly, and adjusted for recoverability, as needed. All expenditures of federal awards should appear on the Schedule of Expenditures of Federal Awards.

Condition:
Certain contracts were recorded using the cash basis of accounting, resulting in a net understatement of revenue totaling approximately $139,000. One of these contracts, totaling approximately $64,000 was also omitted from the Organization's Schedule of Expenditures of Federal Awards. In addition, a contract was not adjusted for recoverability, which resulted in an overstatement of revenue of approximately $130,000. Audit adjustments were made to adjust revenues for the misstatements noted above.

Effect:
When contracts are accounted for on the cash basis or not adjusted for recoverability, the Organization's consolidated financial statements may be misstated. In addition, the Schedule of Expenditures of Federal Awards may not be complete.

Recommendation:
We recommend that management establish policies and procedures to ensure that contracts are recorded on the accrual basis of accounting.

View of Responsible Officials and Planned Corrective Actions:

2008-4 Account Reconciliation

Criteria:
Changes in underlying data supporting general ledger accounts should be reflected in monthly account reconciliations.

Condition:
The nature of supporting data for one liability account changed during the year ended December 31, 2008. The liability account was not reconciled to the new supporting data for several months.

Effect:
The liability account was overstated as of December 31, 2008. A significant audit adjustment was recorded to adjust the account balance to agree with the supporting data.

Recommendation:
We recommend that management establish policies and procedures to ensure that changes in underlying data are reflected in monthly general ledger account reconciliations.

View of Responsible Officials and Planned Corrective Actions:

<u>2008-5 Controls Over Payroll</u>

Criteria:
Segregation of incompatible duties is a key component of any system of internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records.

Condition:
We noted that the Payroll and Benefits Manager (1) can make changes to employee payroll data (2) can initiate the preparation of payroll checks and direct deposit transfers, and (3) reviews the accuracy and completeness of payroll program and data files. The CEO does review a report of payroll changes and actions on a monthly basis. In addition, a detailed personnel cost report is distributed monthly for review by unit managers.

Effect:
When a situation like that described above exists, the likelihood of misappropriation of assets or errors in accounting is heightened.

Recommendation:
Although mitigating controls exist, we recommend that management further segregate duties in the payroll function by not allowing one person to have access to both assets and accounting records.

View of Responsible Officials and Planned Corrective Actions:

2008-6 Allocation of Expenses

Criteria:
Costs must be allocated to the proper cost center in order to support billings submitted for cost reimbursement type contracts.

Condition:
We noted costs related to one contract that had not been allocated to the correct cost center.

Effect:
When a situation like that described above exists, a possibility of overbilling a contract exists.

Recommendation:
We recommend that management implement procedures to ensure that all costs are recorded in the correct cost center.

View of Responsible Officials and Planned Corrective Actions:

Section III – Federal Award Findings and Questioned Costs

We identified two matters that were determined to be significant deficiencies in internal control related to federal programs. These matters are described on the preceding pages as items 2008-3 and 2008-5. Item 2008-3 does not pertain to a major federal program.

2007-1 Controls Over Purchasing and Disbursements

Criteria:
Segregation of incompatible duties is a key component of any system of internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records.

Condition:
We noted that the Purchasing and Accounts Payable Coordinator can (1) create new vendors (2) approve purchase orders (3) print checks (4) prepare and deliver the check runs to the executive committee for approval and (5) access accounting records related to purchases and accounts payable. Certain mitigating controls do exist, including review of check runs by the executive committee, service unit variance reports reviewed by the unit managers and utilization of positive pay banking procedures.

Status: The Organization has implemented additional controls to segregate incompatible duties. Someone other than the Purchasing and Accounts Payable Coordinator reviews all new vendor set-ups and prepares and delivers the check runs to the executive committee for approval.

2007-2 Controls Over Payroll

Criteria:
Segregation of incompatible duties is a key component of any system of internal control. The basic premise is that no one employee should have access to both physical assets and the related accounting records.

Condition:
We noted that the Payroll and Benefits Manager (1) can make changes to employee payroll data (2) can initiate the preparation of payroll checks and direct deposit transfers, and (3) reviews the accuracy and completeness of payroll program and data files. The CEO does review a report of payroll changes and actions on a monthly basis. In addition, a detailed personnel cost report is distributed monthly for review by unit managers.

Status: See repeat finding 2008-5.